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January 23, 2015

Arizona Corporation Commission

**DOCKETED**

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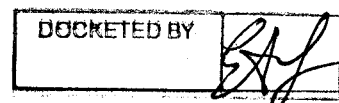
Docket Control

Arizona Corporation Commission

1200 West Washington Street

Phoenix, AZ 85007

**ORIGINAL**



Re: Notice of Compliance - UNS Electric, Inc.'s Application For An Accounting Order In Connection With The Acquisition Of Up To A 25% Intrest In Gila River Power Plant Unit #3 Plan of Administration, Docket No. E-04204A-13-0476, Decision No. 74911 (Page 11, Lines 10-12 and 17-20)

UNS Electric, Inc. ("UNS Electric") hereby files its revised Plan of Administration, in compliance and consistent with Decision No. 74911 (January 22, 2015).

If you have any questions, please contact me at (520) 884-3680.

Best regards,

Melissa Morales  
Regulatory Services

cc: Compliance Section, ACC

UNS Electric, Inc.  
Gila River Power Plant Unit 3 Acquisition Accounting Order  
Plan of Administration

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## **1. GENERAL DESCRIPTION**

This document describes the plan of administration for the Gila River Power Plant Unit 3 Acquisition Deferred Accounting Order ("Order") as approved by the Arizona Corporation Commission ("ACC") in Decision No. 74911 (January 22, 2015) for UNS Electric, Inc. ("UNSE" or "Company").

The Order authorizes the deferral of certain Non-fuel costs (collectively defined as "Deferred Costs" in Section 3), and short-term fuel and purchased power savings (collectively defined as "Deferred Savings" in Section 4) associated with the Company's purchase of a 25% interest in Unit 3 at the Gila River Power Plant ("Gila 3"). These Deferred Costs and Deferred Savings will be evaluated during the Company's next rate case. During this interim period between January 1, 2015, and the earlier of April 30, 2016, or the date new rates go into effect for UNSE (the "Deferral Period"), the cumulative Deferred Cost will not exceed the lower of \$10.5 million or the cumulative Deferred Savings as of April 30, 2016. For purposes of calculating the Purchased Power and Fuel Adjustment Clause ("PPFAC"), Deferred Savings will continue to accrue until new rates become effective; however, cumulative Deferred Costs will not increase after April 30, 2016, regardless of Deferred Savings applicable to periods after April 30, 2016.

## **2. DEFINITIONS**

Accounting Order – A rate-making mechanism used by a regulatory authority that allows the deferral of costs and/or savings by a regulated utility for possible future recovery or credit.

Carrying Costs – Costs accrued at a 5.0000% annual rate on the company's Net Book Investment of Gila 3 including the Company's pro rata share of any directly related associated Material and Supplies.

Fuel and Purchased Power Costs – The costs recorded for the fuel and purchased power used by UNSE to serve both Native Load Energy Sales and Wholesale Sales. Wheeling costs are included in Fuel and Purchased Power costs.

Native Load Energy Sales – Retail Native Load Energy Sales and Wholesale Native Load Energy Sales in the UNSE control area for which UNSE has a generation service obligation.

Net Book Investment – The cost of the Company's investment in its share of the plant, reduced by total depreciation and amortization recorded, plus the Company's pro-rata share of any directly related Materials and Supplies.

Off-Peak Power – Power for delivery Monday through Saturday from hour ending 2300 through hour ending 0600 Pacific Prevailing Time, and hour ending 0100 through hour ending 2400 Pacific Prevailing Time on Sunday and North American Electric Reliability Corporation ("NERC") holidays.

On-Peak Power – Power for delivery Monday through Saturday, excluding NERC Holidays, from hour ending 0700 through hour ending 2200, Pacific Prevailing Time.

Off System Sales - Energy sales other than those to directly meet the Company's native load obligations.

Palo Verde Hub – Palo Verde , also known as “PV” is a major cumulative western market trading hub that includes the Palo Verde substation and the Hassayampa substation.

PPFAC – The Purchased Power and Fuel Adjustment Clause (“PPFAC”) initially approved by the Commission in Decision No. 70360, and amended in Decision No. 74235. The PPFAC rate tracks the changes in the cost of obtaining power supplies based upon a historical 12-month rolling average of fuel, purchased power and purchased transmission costs as defined in the PPFAC Plan of Administration and is adjusted monthly.

Short-term Sales – Wholesale sales with a duration of less than one year made to non-Native Load customers for the purpose of optimizing the UNSE system, using UNSE-owned or contracted generation and purchased power.

Wholesale Sales – Sales to non-retail customers.

### **3. ALLOWABLE DEFERRED COSTS**

The Deferred Costs as defined below, associated with owning, operating and maintaining UNSE's 25% interest in Gila 3 will be deferred as a regulatory asset during the Deferral Period, subject to the lower of \$10.5 million or the cumulative Deferred Savings as of April 30, 2016. The costs eligible for deferral are limited to:

1. Depreciation and Amortization costs.
2. Property taxes.
3. O&M expenses.
4. Carrying Costs on Net Book Investment, both as defined above.

Eligible deferred costs shall not include decommissioning costs.

### **4. ALLOWABLE DEFERRED SAVINGS**

The Deferred Savings associated with owning and operating UNSE's 25% interest in Gila 3 will be deferred as a regulatory liability, and will accrue during the period beginning January 1, 2015 and ending upon the date new rates go into effect following UNSE's next rate case. The Deferred Savings are limited to:

1. Energy costs based on published PV (the major wholesale power hub for UNSE's service territory) day-ahead-market prices from the Intercontinental Exchange (“ICE”) for On-Peak and Off-Peak power, less actual fuel costs, plus
2. Avoided long term capacity procurement costs at \$1.52 per kW/month as approved in Accounting Order Decision No. 74911, and offset by
3. Short term wholesale sales revenues associated with Gila 3.

Deferred Savings are considered "allowable costs" for purposes of calculating UNSE's PPFAC but will not be included as part of the PPFAC bank for purposes of calculating accrued interest.

**5. COMPLIANCE REPORTS**

UNSE shall provide monthly reports to the Commission's Docket Control and to the Residential Utility Consumer Office detailing all calculations related to allowable cost included in the PPFAC. Monthly reports will be due within 45 days of the end of a reporting period. The information contained in the Compliance Reports will consist of the following schedules:

- Schedule A: Allowable Deferred Costs
- Schedule B: Allowable Deferred Savings
- Schedule C: Any Wholesale Sales which are 1 year or greater in duration. This schedule shall describe the dates, the number of MW's sold, type of service (firm, non-firm, etc.) and ancillary services (if any), type of sale (on peak, around the clock, etc.),